Cancoil Integrated Services Inc.

THIRD QUARTER REPORT
September 30, 2001

	Nine Months Ended September 30, 2001	Ten Months Ended September 30, 2000**	Three Months Ended September 30, 2001	Four Months Ended September 30, 2000**
Average number of rigs	8.3	2.2	8.8	3.8
Revenue	$17,373,173	$3,966,251	$7,751,936	$2,775,032
Gross margin	$8,437,430	$2,097,257	$4,065,461	$1,652,350
Gross margin percent	49%	53%	52%	59%
Net income	$3,221,227	$788,584	$1,907,480	$823,132
Net income per share*	$0.088	$0.030	$0.053	$0.026
EBITDA	$6,958,080	$1,222,931	$3,514,366	$1,098,777
EBITDA per share*	$0.190	$0.046	$0.097	$0.035
Cash flow	$5,333,737	$1,055,909	$2,848,093	$985,054
Cash flow per share*	$0.146	$0.040	$0.079	$0.031
Long-term debt vs. Dec. 31 2000	$9,535,516	$7,278,229	$9,535,516	$7,278,229
Long-term debt to equity	60%	58%	60%	58%
Shares outstanding	27,281,667	27,121,667	27,281,667	27,121,667
Shares outstanding diluted	42,337,850	34,971,667	42,337,850	34,971,667
Weighted average shares - diluted, treasury stock method	36,582,053	26,438,209	36,217,454	31,395,967

* Per share figures are on a weighted average diluted basis using the treasury stock method

** Cancoil changed its fiscal year-end during 2000 from May 31 to December 31. To align reporting periods the September 2001 quarter end is compared to the four month period ended September 30, 2000 and the nine-month period is compared to ten months ended September 30, 2000.

Cancoil Integrated Services Inc. produced record financial and operating results in the third quarter of 2001. Net income for the nine months ended September 30, 2001 was up 308 percent to $3.2 million or $0.088 per share compared to $0.03 per share for the ten months ended September 30, 2000. Cash flow from operations was up 265 percent on a per share basis comparing the first three quarters 2001 with the ten months ended September 30, 2000. The improved results were driven by a fourfold increase in the coil tubing rig fleet while strong gross operating margins held. With an aggressive fleet expansion program, long-term debt increased by 30 percent or $2.2 million in the first nine months of 2001. However the overall long-debt to equity ratio increased only two percent to 60 percent at the end of September 2001 compared to December 31, 2000.

Comparing the third quarter of 2001 with the second quarter shows a solid revenue increase of 45 percent. Net income was up 79 percent as gross operating margins remained strong and general and administrative and interest costs as a percent of revenue declined significantly compared to the second quarter.

Operations

Cancoil's financial results reflect continued growth in the company rig fleet and operations when comparing results for the first nine months of 2001 with the ten months ended September 30, 2000. The rig fleet grew from an average of 2.2 rigs in the ten months ended September 30, 2000 to 8.3 rigs for the nine-month period ended September 30, 2001. Operations in the United States also began in the past year under Technicoil, a 75 percent owned subsidiary. Overall at the end of September 2001 the company was operating ten coil tubing rigs three of which were working in the United States. Cancoil moves rigs between Canada and the United States as customer needs require.

Cancoil continues its efforts to diversify its revenue stream both on the basis of type of service offered and geographical diversification through its expansion into the United States. In addition to its historical strength in coil tubing well fracturing, revenue is being generated by conventional vertical drilling and under balanced directional drilling projects.

The third quarter of 2001 was Cancoil's strongest to date. On April 1st Cancoil began delivering its coil tubing service to Halliburton Energy Services under the agreement announced on March 26, 2001. An average of seven rigs were dedicated to work for Halliburton under the alliance agreement between Halliburton and Cancoil during the third quarter resulting in high fleet utilization. Overall the utilization rate was 94 percent for the three months ended and 75 percent for the nine months ended September 30, 2001.

Revenue Analysis by Type of Activity	**Nine months ended September 30, 2001**	**Ten months ended September 30, 2000**
Canada		
Fracturing	$8,258,582	$3,604,353
Re-entry drilling	386,157	272,529
Conventional drilling	2,502,211	-
Total Canada	11,146,950	3,876,882
United States		
Fracturing	3,887,345	89,639
Re-entry drilling	412,109	-
Conventional drilling	1,926,769	-
Total United States	6,226,223	89,639
Consolidated revenue	$17,373,173	$3,966,251

Management Discussion and Analysis

Financial Summary

Revenue for the nine-month period ended September 30, 2001 increased 338 percent compared to the ten months ended September 30, 2000. Net income of $3,221,227 was up 308 percent comparing the nine months ended September 30, 2001 to the ten months ended September 30, 2000. The increased revenue was due to growth in the rig fleet from an average of just over two rigs in 2000 to more than eight rigs working in the 2001 period. Cancoil's gross operating margin was 49 percent for the nine-month period ended September 31, 2001 compared to 53 percent for the ten-months ended September 30, 2000. These operating margins remain near the high end of management's planning assumption of 45 to 50 percent as the majority of revenue in both periods was from higher margin coil fracturing work. General and administrative expenses as a percent of revenue declined to 10 percent in the nine month period ended September 30, 2001 compared to 11 percent for the ten month period ended September 30, 2000 as the higher revenue base in 2001 provided greater economies of scale for Cancoil's administrative support. A one-time gain of $189,749 from the sale of a nitrogen pumping unit in the second quarter of 2001 also contributed to 2001 income when comparing the two periods. On a diluted per share basis net income was $0.088 for the first nine months of 2001 compared to $0.030 for the ten months ended September 30, 2000 up 193 percent as additional shares were issued in the past year offsetting some of the income increase when measured on a per share basis.

Comparing the third quarter of 2001 with the second quarter, revenue was up 45 percent and net income increased 79 percent. The higher revenue was due to a higher number of rigs in the third quarter and more rigs working under the Halliburton agreement resulting in high utilization rates for the growing fleet. Gross operating margins in the third quarter remained high at 52 percent compared to 58 percent in the second quarter. The higher percent increase in net income compared to the revenue increase was due to lower general and administrative expenses in the third quarter at 7 percent of revenue compared to 11 percent in the second quarter due to economies of scale. In addition, third quarter percent increases in amortization and interest expense were both much lower than the revenue increase contributing to the higher increase in net income. Cash flow offset much of the capital additions during the third quarter resulting in a small increase in long-term debt and interest expense during the third quarter.

Amortization expense increased 207 percent for the nine months ended September 30, 2001 compared to the ten months ended September 30, 2000 due to the large amount of capital investment made in the past year to expand the rig fleet from one to ten. Similarly, interest expense increased 117 percent comparing the nine-month period ended September 30, 2001 to the ten months ended September 30, 2000 as a portion of the capital program was financed by an increase in bank debt.

Assets and Liabilities

Accounts receivable and accounts payable were up 164 percent and 182 percent respectively comparing September 30, 2001 balances with December 31, 2000. The increases are due to a larger rig fleet and higher work volume at the end of September 2001 compared to the last quarter of 2000. The company exited 2000 with eight rigs and had 10 rigs at the end of the third quarter of 2001.

Working capital at September 30, 2001 was in a deficit position of 0.8:1 the same level as at the end of last year. Deposits of $2.3 million on two new rigs for delivery in 2002 were made in the third quarter that stretched working capital through the quarter end. During October $900,000 of the deposits were financed under the term bank debt facility. In addition, Cancoil's major shareholder exercised the outstanding class "A" warrants for cash consideration of $1.5 million on October 22, 2001. The term financing and warrant payment combined with ongoing cash receipts returned the company to a positive working capital position by the end of October. The remaining payments on the new rigs will be financed under the term bank debt facility.

Total long-term debt increased 30 percent at September 30, 2001 compared to December 31, 2000 as capital spending in the first nine months was greater than cash flows and was financed by an increase in long-term bank debt. Cancoil's debt/equity was 60 percent at September 30, 2001 compared to 58 percent at December 31, 2000, up only 3 percent.

Outlook

In August of 2001 Cancoil announced that it would reduce its 2002 capital plan to build two additional new generation rigs rather than the originally planned four rigs. The two rigs will bring Cancoil's total to 14 rigs by mid-2002. Cancoil has opted to conduct a more conservative capital plan in light of lower prices for oil and natural gas and uncertainty in customer spending plans. Bank facilities are in place that combined with cash flows are expected to comfortably finance the reduced capital program in a slower business scenario. Management is committed to maintaining maximum financial flexibility in the event our customers scale back their spending. In addition to the two additional rigs to be delivered in the second quarter of 2002 Cancoil is building a third integrated drilling mud system for delivery before the end of 2001 to support drilling contracts in place for early 2002.

Three quarters of Cancoil's fleet is currently working under the Halliburton agreement providing a strong base of operating revenue over the next six months. The remaining rigs in the fleet are expected to see lower utilization rates for the balance of the year as customers have scaled back their plans for drilling shallow gas wells in the fourth quarter. The 2002 winter drilling season still appears to be an active one. Looking ahead to the first quarter of 2002 we have drilling contracts in place that will deliver solid utilization rates through to break-up for the portion of the rig fleet not dedicated to working with Halliburton.

Cancoil Integrated Services Inc.

CONSOLIDATED BALANCE SHEETS

	September 30, 2001 (unaudited)	December 31, 2000
ASSETS		
Current assets:		
Cash	$726,690	-
Accounts receivable	6,519,894	$2,469,302
Prepaid expenses and other	475,592	237,948
	7,722,176	2,707,250
Due from shareholder	60,000	60,000
Fixed assets under construction	5,784,882	4,417,337
Capital assets - net	20,741,971	14,533,884
	$34,309,029	$21,718,471
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank operating loan	$3,000,000	$160,179
Accounts payable and accrued liabilities	4,339,913	1,539,266
Current portion of long-term debt	2,337,979	1,470,729
Deferred revenue	-	100,232
	9,677,892	3,270,406
Long-term debt	5,697,537	4,307,500
Convertible debenture	1,500,000	1,500,000
Future income taxes	1,171,710	65,341
Non-controlling interest	290,713	40,039
Shareholders' equity		
Capital stock	12,255,672	12,040,907
Retained earnings	3,715,505	494,278
	15,971,177	12,535,185
	$34,309,029	$21,718,471

Cancoil Integrated Services Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(unaudited)

	Nine months ended September 30, 2001	Ten months ended September 30, 2000	Three months ended September 30, 2001	Four months ended September 30, 2000
Coil tubing drilling and service revenue	$17,373,173	$3,966,251	$7,751,936	$2,775,032
Expenses:				
Operating	8,935,743	1,868,994	3,686,475	1,122,682
General and administrative	1,669,099	874,326	551,095	553,573
Amortization	945,216	308,875	350,027	191,712
Interest on long-term debt	511,351	235,992	184,697	152,722
(Gain) on sale of fixed assets	(189,749)	-	-	-
Other income	(19,461)	(68,970)	(4,334)	(38,999)
	11,852,199	3,219,217	4,767,960	1,981,690
Net income before income tax	5,520,974	747,034	2,983,976	793,342
Income tax expense				
Current	865,525	-	485,910	-
Future	1,183,548	-	491,922	-
	2,049,073	-	977,832	-
Net income before non-controlling interest	3,471,901	747,034	2,006,144	793,342
Non-controlling interest in net (income) loss of subsidiary	(250,674)	41,550	(98,664)	29,790
Net income for the period	3,221,227	788,584	1,907,480	823,132
Retained earnings (deficit), beginning of period	494,278	(21,142)	1,808,025	(55,690)
Retained earnings, end of period	$3,715,505	$767,442	$3,715,505	$767,442
Net earnings per share				
Basic	$0.118	$0.033	$0.070	$0.030
Diluted	$0.088	$0.030	$0.053	$0.026

Cancoil Integrated Services Inc.

CONSOLIDATED STATEMENTS OF CASH FLOW

(unaudited)

	Nine months ended September 30, 2001	Ten months ended September 30, 2000	Three months ended September 30, 2001	Four months ended September 30, 2000
Cash provided by (used in):				
Operating activities:				
Net income	$3,221,227	$788,584	$1,907,480	$823,132
Add (deduct) non-cash items				
Amortization	945,216	308,875	350,027	191,712
Future income tax	1,106,369	-	491,922	-
Gain on sale of asset	(189,749)			
Non-controlling interest	250,674	(41,550)	98,664	(29,790)
Funds flow from operations	5,333,737	1,055,909	2,848,093	985,054
Change in non-cash working capital	(1,587,821)	1,226,575	873,347	1,379,140
	3,745,916	2,282,484	3,721,440	2,364,194
Financing activities:				
Common shares and warrants issued	214,765	2,872,113	(2,101)	40,000
Increase in long-term debt	2,257,287	901,415	461,762	1,074,112
Convertible debenture	-	1,500,000	-	-
Contribution by non-controlling shareholder of subsidiary	-	87,947	-	-
	2,472,052	5,361,475	459,661	1,114,112
Investing activities:				
Acquisition of capital assets	(7,868,027)	(6,215,445)	(5,050,069)	(4,072,645)
Proceeds from asset sold	904,473	-	-	-
Capital assets under construction	(1,367,545)	(1,331,180)	(362,993)	893,726
	(8,331,099)	(7,546,625)	(5,413,062)	(3,178,919)
Net increase (decrease) in cash and cash equivalents	(2,113,131)	97,334	(1,231,961)	299,387
Cash and cash equivalents (bank operating loan net of cash), beginning of period	(160,179)	1,895,152	(1,041,349)	1,693,099
Cash and cash equivalent (bank operating loan net of cash), end of period	$(2,273,310)	$1,992,486	$(2,273,310)	$1,992,486
Funds flow from operations per share				
Basic	$0.196	$0.044	$0.104	$0.036
Diluted	$0.146	$0.040	$0.079	$0.031

Notes to the Consolidated Financial Statements (unaudited)

1. Basis of Presentation

These interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements. Not all disclosures required by GAAP for annual financial statements are presented. The interim financial statements should be read in conjunction with the most recent audited, annual financial statements.

2. Seasonality of Operations

A significant portion of the Company's operations is carried on in Canada. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring breakup" has an impact on the Company's activity levels in the spring of each year. In addition, in extreme cold weather in Canada well fracturing activity may be curtailed for short periods. Wells are fractured with water-based sand mixtures that can freeze at temperatures below –20C.

3. Subsequent Event

On October 22, 2001 the holder of the $1,500,000 convertible debenture exercised their conversion right to receive 3,000,000 common shares in exchange for the debenture. The effect of this transaction is a reduction of long-term debt by $1,500,000 with an equal increase in share capital. On October 22, 2001 the holder of the "A" warrants exercised their warrants and received 3,000,000 common shares for a cash payment of $1,500,000. The effect of the transaction was to increase share capital by $1,500,000. The cash payment was immediately applied to reduce the bank operating loan.

4. Capital Stock

Outstanding common shares, special warrants, stock options and other convertible instruments:

	September 30, 2001	December 31, 2000
Common shares	27,281,667	27,121,667
Special warrants	4,545,455	4,545,455
Class "A" warrants	3,000,000	3,000,000
Convertible debentures	3,000,000	3,000,000
Common share purchase warrants	2,272,728	2,272,728
Stock options	2,238,000	2,150,000
	42,337,850	42,089,850

Cancoil Integrated Services Inc.

CORPORATE INFORMATION

DIRECTORS

Mark T. Andreychuk, P. Eng. (1) (4)
Senior Vice President, Business Development
Cancoil Integrated Services Inc.
Calgary, Alberta, Canada

Arthur E. Dumont (3)
Chairman, President & CEO
Cancoil Integrated Services Inc.
Calgary, Alberta, Canada

Douglas Freel, MBA (1) (3) (4)
Senior Investment Analyst
ARC Financial Corporation
Calgary, Alberta, Canada

Peter Gross (1) (2)
Vice President, Operations
Viking Management Ltd.
Calgary, Alberta, Canada

J. Lindsay Hood, P. Eng. (2) (3)
Senior Vice President & Director
ARC Financial Corporation
Calgary, Alberta, Canada

John Niedermaier (1) (2) (4)
Executive in Oil & Gas Service Industry
Calgary, Alberta, Canada

E. A. (Andy) Rike, Jr. (4)
President
Technicoil Integrated Services Inc.
Houston, Texas, U.S.A.

Robert D. Steele
Independent Businessman
Calgary, Alberta, Canada

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Corporate Governance Committee
(4) Member of Health, Safety and Environment Committee

OFFICERS

Arthur E. Dumont
Chairman, President & CEO

Mark Andreychuk, P. Eng.
Senior Vice President, Business Development

W.P. (Dell) Chapman, C.A., C.F.A.
Vice President, Finance & CFO

Colin B. Murch, P.Eng., M.B.A.
Vice President, Operations

E.A. (Andy) Rike, Jr.
President, Technicoil Integrated Services Inc.

William D. Dittmer, C.A.
Secretary

HEAD OFFICE
Cancoil Integrated Services Inc.
Suite 1550, 633 – 6 Avenue S.W.
Calgary, Alberta, Canada T2P 2Y5
Tel: (403) 509-0700
Fax: (403) 509-0701
Email: info@cancoil.com
Website: www.cancoil.com

SUBSIDIARY
Technicoil Integrated Services Inc.
14515 Briar Hills Parkway, Suite 202
Houston, Texas, U.S.A. 77077
Tel: (281) 679-8380
Fax: (281) 679-8382
Email: info@technicoil.net
Website: www.technicoil.net

TRANSER AGENT AND REGISTRAR
Computershare Investor Services Inc.
Calgary, Alberta, Canada

AUDITORS
KPMG
Calgary, Alberta, Canada

LEGAL COUNSEL
McLeod & Company
Calgary, Alberta, Canada

INVESTOR RELATIONS
Dell Chapman
Vice President, Finance & CFO
Tel: (403) 509-0704